CBRE Hotels
Limelight Asia

Hotel Market Trends Insight

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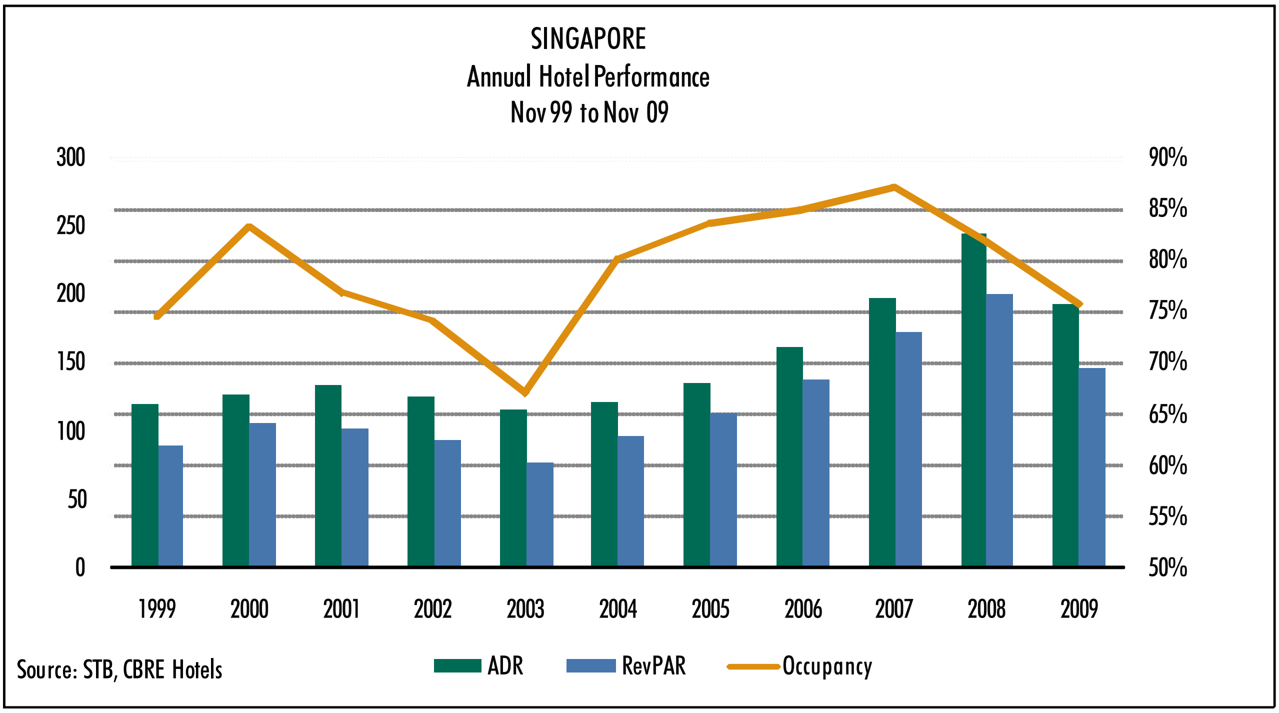
CB RICHARD ELLIS

SINGAPORE HOTEL MARKET OUTLOOK - 2010

As we embark on the start of 2010, strengthening business and consumer sentiment in the market is providing a welcome sense of relief for the hotel industry, plagued by falling visitor numbers and declining performance during the past year. While optimists are proclaiming the ‘green shoots’ of recovery are already visible, most industry observers are remaining cautious. In this edition of Limelight Asia, CBRE Hotels analyses current hotel performance, and discusses key factors influencing the performance of the Singapore hotel market in 2010 and beyond.

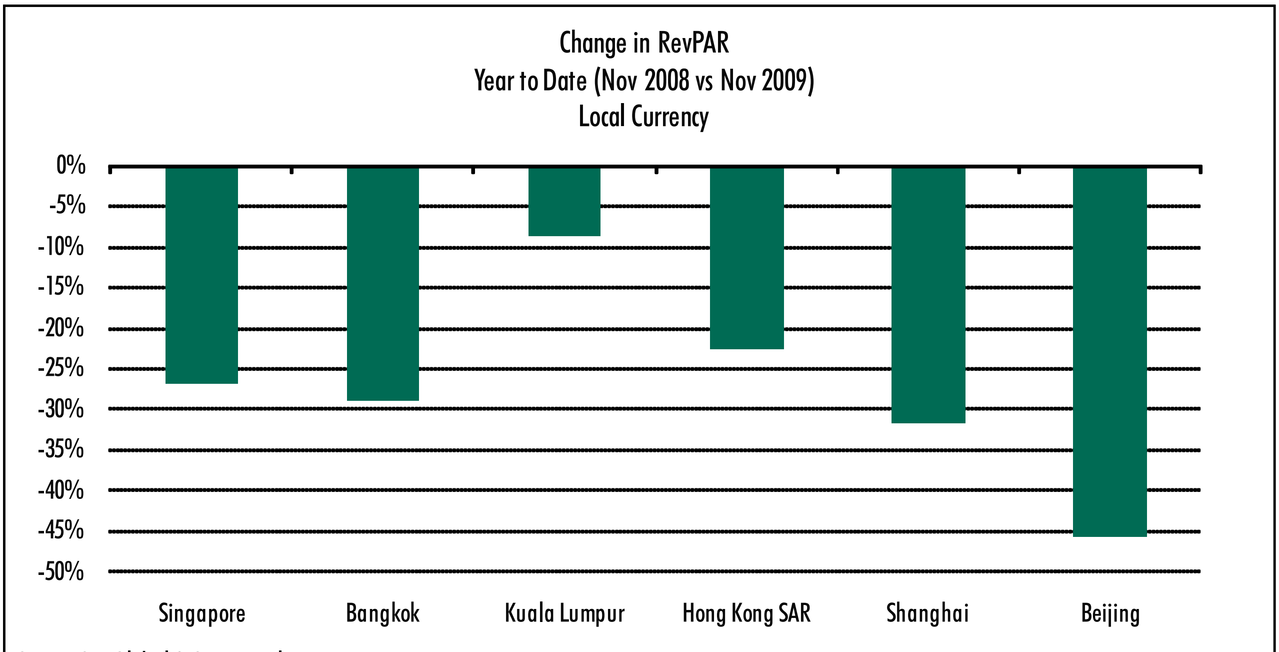
Just over nine months ago in the height of market uncertainty, CBRE Hotels published an article forecasting Singapore hotel performance for 2009. In summary, CBRE Hotels projected occupancy levels to decline to around 71 percent, average daily room rates (ADR) to decline to between S$209 to S$221 and revenue per available room (RevPAR) to decrease to between S$148 to S$158.

Whilst we are still awaiting the release of full year data, preliminary annual figures to November show a decrease in RevPAR of 27.0 percent to reach S$146, slightly below the range forecast in early March. Occupancy levels remained higher than anticipated as hotels slashed rates more than expected. CBRE Hotels anticipates that RevPAR will increase marginally by the end of 2009 ensuring final RevPAR results fall within the forecast range.



DECLINES IN REVPAR ACROSS THE REGION

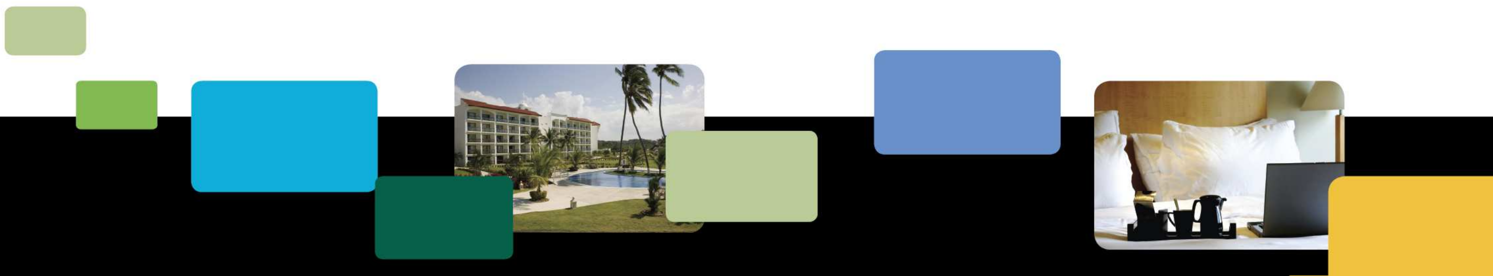
Singapore is not the only country to have witnessed severe declines in RevPAR as a result of the global financial crisis. Most major cities across the region have witnessed at least a 10 percent decline in RevPAR, with Beijing experiencing a decline of over 45 percent.



Source: STR Global & CBRE Hotels

Following 15 months of consecutive negative growth in visitor arrivals (year on year) in Singapore, visitor arrivals now appear to be on the upward trend. September was the first month to show positive growth in arrivals at an encouraging 7.1 percent, boosted by the Formula One Grand Prix, Hari Raya holidays and the Silver Week holidays in Japan. Visitor numbers grew 8.4 percent in November representing the highest growth in 2009.

Increasing visitor numbers are also evident across the region, and, according to preliminary data released by the Association of Asia Pacific Airlines (AAPA), a total of 11.1 million international passengers were carried by AAPA member airlines, representing a 4.5 percent increase on November 2008 figures.



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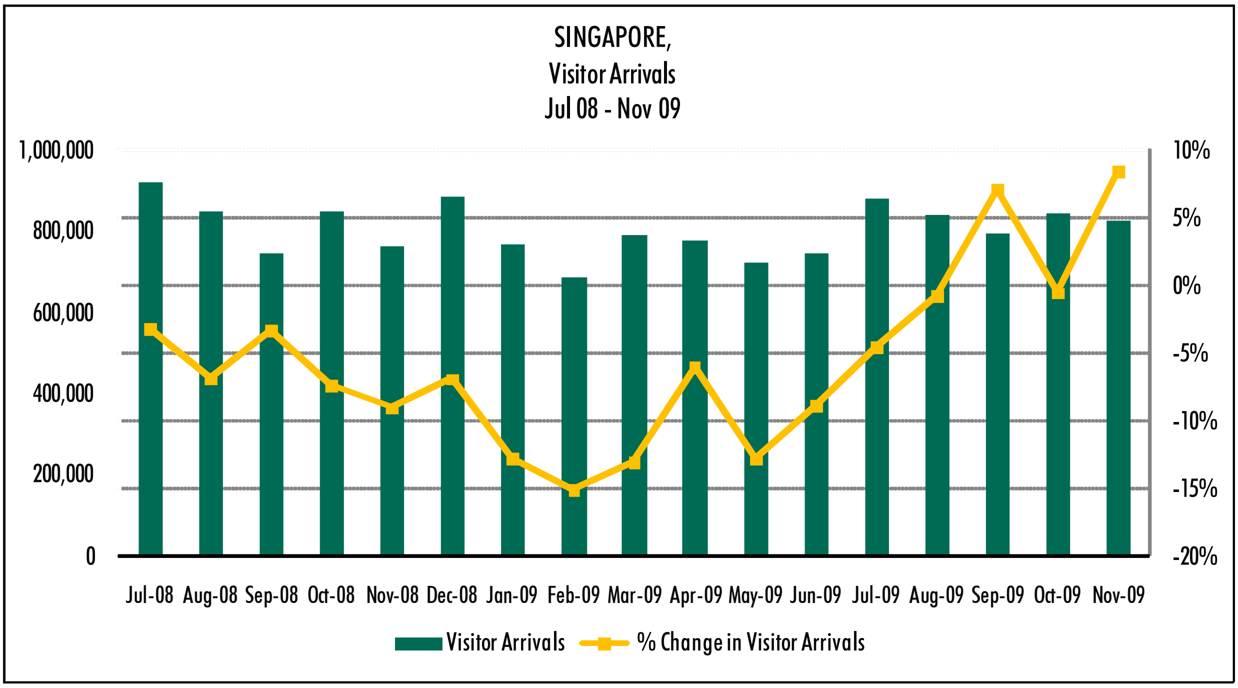
VISITOR ARRIVALS KEY TO HOTEL PERFORMANCE

Consumer confidence is certainly strengthening and corporate travellers are slowly but surely re-entering the market. As we move into 2010, all signs suggest the regional trend in consumer and business sentiment is likely to continue, driven by an improved outlook for the region's economic growth prospects.



Singapore is well positioned to take advantage of the likely improvement in market sentiment, with the opening of the two integrated resorts (IRs) in early 2010 set to transform the tourism landscape in Singapore. These attractions alone will generate a significant increase in visitor arrivals to the city state, and provide a much needed point of difference to the numerous destinations in Asia vying for a share of tourism demand in 2010.

The importance of visitor arrival numbers on hotel performance cannot be understated. To what extent the IR's will boost visitor arrivals numbers is unknown, and a degree of uncertainty exists in forecasting future arrivals numbers. The Singapore Tourism Board's (STB) previous target of attracting 17 million visitor arrivals by 2015 is reportedly still current, yet appears extremely ambitious, if not impossible, given events of the last 12 to 18 months. The announcement of STB's agenda to work towards developing an updated strategy 'Tourism Compass 2020' with revised targets and action plans is a timely initiative welcomed by the industry.

OVER 10,700 ROOMS DUES TO OPEN IN SINGAPORE BY 2012

Despite the inherent uncertainty surrounding visitor arrival targets, CBRE Hotels anticipates that visitor arrivals will not only continue the trend of recovery but that visitor arrivals will grow by between 5 and 10 percent annualised to December 2010. Such growth figures would yield between 10.1 and 10.7 million visitors during this period, with the midpoint 10.4 million visitors exceeding the record number of annual visitors received in 2007.

The opening of the IRs and subsequent increase in visitor arrivals and tourism demand should only help to provide support and boost ailing tourism demand. However, approximately 29 hotels with over 10,700 rooms are estimated to enter the Singapore hotel market by the end of 2012, with over half of the rooms due to open in 2010. If additional hotel projects announced but still in planning stage are included, Singapore could be looking at an additional 13 hotels offering 4,300 rooms by 2015. This brings potential new supply to 42 new hotels with over 15,000 rooms providing up to 15.1 million room nights by 2015, an increase of nearly 50 percent on October 2009 figures.

Many market participants have serious concerns as to whether the anticipated demand will be sufficient to absorb the additional supply. Fortunately for Singapore, the massive investment in tourism infrastructure in the form of the two IR's will help generate significant additional demand, which, when combined with improving business and consumer sentiment, will help to soften the impact of such a dramatic increase in supply over time.

Fortunately, not all hotels will open at the start of 2010 and it is likely that the release of the hotel rooms into the market will be staggered with the majority of rooms more likely to be fully operational towards the end. This will provide some breathing space for existing properties to focus on attracting new business and reinforcing existing client relationships in the first half of the year.

However, 2010 will remain a challenging year for hotels as revenue management strategies are put to the test, and it is unlikely that existing hotels will have the capacity to start increasing room rates in an effort to regain ground lost since the height of the boom.

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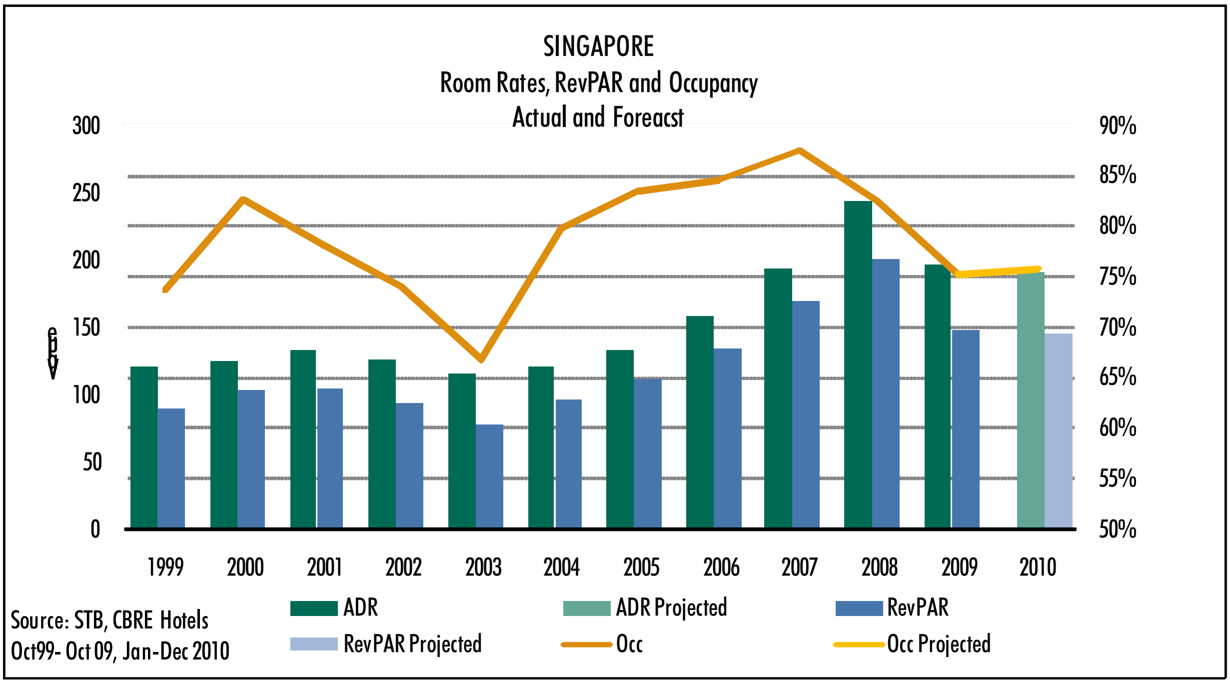
REVPAR TO DECLINE MARGINALLY IN 2010

Whilst it is difficult to predict what will happen in 2010, CBRE Hotels has analysed historical hotel market performance to date and factored in a number of variables to forecast future hotel performance.

Assuming that the fundamental ratios between arrivals, length of stay and visitor arrivals remain similar to those in 2008, and assuming the IR's provide a much needed attraction and boost in visitor arrivals, occupancy rates of between 74 and 78 percent are considered achievable.

In order to achieve an occupancy rate of 76 percent, CBRE Hotels anticipates that it will be difficult for hotels to increase average daily rates above the current levels. If anything, rates may continue to decline, albeit by a smaller percentage than evidenced in 2009, by between 0 to -4 percent annualised, providing a forecast average daily rate of between S$187 and S$196. As a result, RevPAR is forecast to decline by up to 4 percent annualised to reach an average of between S$141 and S$149.



Whilst it is extremely difficult to forecast hotel performance beyond 2010, it is likely that performance may continue to soften in 2011 and stage a recovery from 2012 onwards. However, it is highly unlikely that hotel performance in Singapore will return to the market highs of 2008 for a number of years.

Fortunately, Singapore's underlying market fundamentals remain solid, and with the release of an updated tourism strategy in 2010, Singapore will be well positioned to tackle the challenges ahead.

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ABOUT CBRE HOTELS

CBRE Hotels is dedicated to being the hospitality industry's premier full-service, international service provider of sales advisory, finance, market research and valuation services, focused exclusively on the hospitality sector, to meet the capital needs of investors and individual owners of hotel properties.

We provide global insight and tailor-made solutions from experienced consultants who are passionate about the hotel business. CBRE Hotels, with its dedicated teams in the Asia Pacific, Americas and EMEA, responds quickly and seamlessly to cross-border, cross-regional and global assignments.

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